

# MARKET REPORT

MULTIFAMILY

Northern New Jersey Region

IPA  
INSTITUTIONAL  
PROPERTY  
ADVISORS

3Q/21

## Recovering Demand Stabilizes Vacancy; New Supply Challenges Hudson County

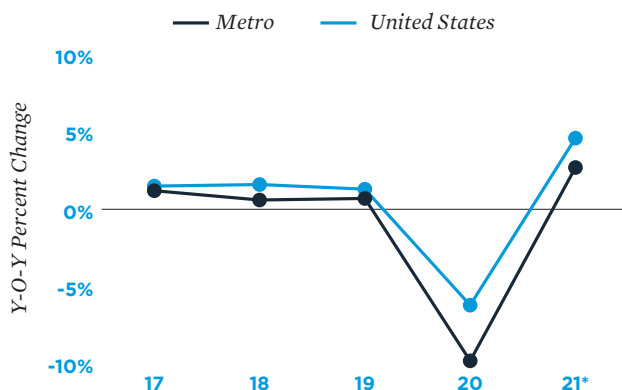
### Suburban residential interests drive market performance.

After a period of uncertainty in the spring and summer of last year, renter demand has since consistently improved. Apartments in the region's suburban communities have performed particularly well. As of mid-2021, vacancy in Union, Morris and Passaic counties had fallen below pre-pandemic levels, to 3.2 percent, 3.8 percent and 2.3 percent, respectively. Most of the availability in Passaic County is from the Class A segment, with Class B and C vacancies under 2 percent. The dynamic is somewhat different in Morris County. High demand for the Class A units at hand has pushed vacancy below the Class B measure, while contributing to annual Class A rent growth of over 10 percent.

### Supply continues to outdistance demand in Hudson County.

The reopening of stores, offices, and other venues earlier this year aided leasing activity in Hudson County. After relinquishing units last year, over 3,000 apartments in the submarket were absorbed in the first half of 2021. Demand has failed to keep pace with supply, however. New arrivals are competing with existing Class A properties for renters, reflected in rising vacancy. The Class A rate for the county climbed to 14.4 percent in June, more than double the level from the same period in 2019. As the supply pipeline is not expected to dwindle in the near future, improved leasing activity driven by the economic recovery will continue to be mitigated in the county by the ongoing apartment openings.

### Employment Trends



\* Forecast

Sources: BLS; CoStar Group, Inc.

## Multifamily 2021 Outlook



**52,000  
JOBS**

*will be created*

### EMPLOYMENT:

After contracting by a sharp 9.8 percent last year, the market's employment base will grow by a modest 2.7 percent in 2021. As of July, the unemployment rate continued to lie above 8 percent, compared with the national rate of 5.4 percent.



**9,000  
UNITS**

*will be completed*

### CONSTRUCTION:

Completions scheduled for 2021 will fall about 1,300 units short of last year's total. The market's inventory is anticipated to expand by 2.4 percent this year, with most arrivals slated for Hudson County. Materials shortages could delay some projects into 2022.



**10  
BASIS POINT**

*decrease in vacancy*

### VACANCY:

Recovering leasing activity, with more units absorbed through the first half of this year than in all of 2020, will help stabilize vacancy in the high-5 percent band. After jumping 160 basis points last year, the marketwide rate should dip to 5.9 percent by the end of 2021.



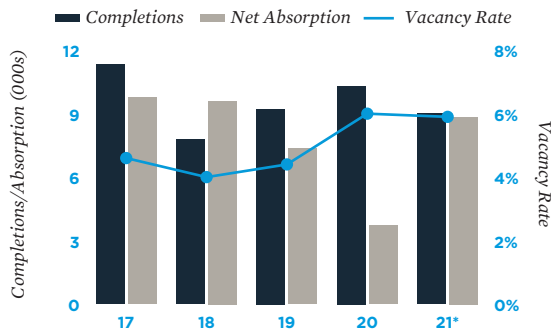
**4.7%  
INCREASE**

*in effective rent*

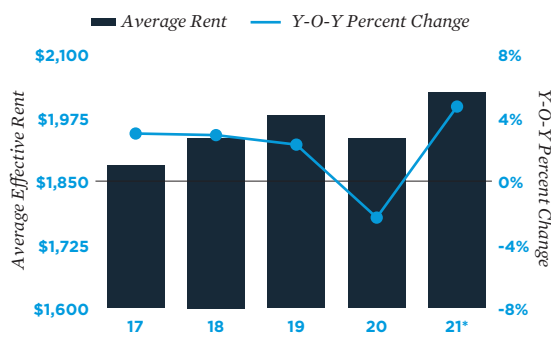
### RENT:

Renter demand realigning with supply will enable a return to rent growth after rates slid 2.3 percent in 2020. The average effective rate for the market will climb to \$2,025 per month this year, a new high.

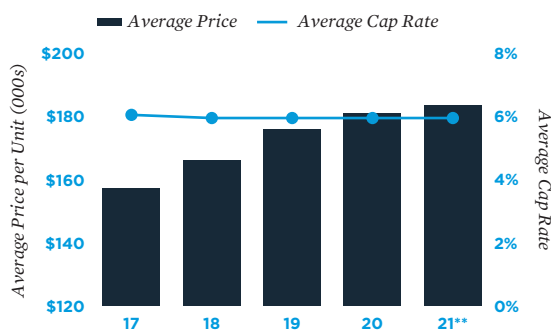
### Supply and Demand



### Rent Trends



### Sales Trends



\* Forecast; \*\* Through 2Q

Sources: CoStar Group, Inc.; Real Capital Analytics

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Price: \$250

## 2Q21 – 12-Month Period

### CONSTRUCTION

**9,874 units completed**

- Development moderately slowed as about 600 fewer rentals were delivered over the past four quarters than during the prior annual period.
- The construction pipeline was largely contained to Hudson County with the completion of just under 6,000 units. Bergen and Essex counties also each welcomed over 1,000 new doors.

### VACANCY

**40 basis point increase in vacancy Y-O-Y**

- After climbing to 6.0 percent last year, up from 4.4 percent in 2019, vacancy has held steady at 5.8 percent through the first half of 2021.
- Availability dropped the most in Union County, down 120 basis points to 3.2 percent. At the other end of the spectrum, vacancy in Hudson County is up 180 basis points year over year to 9.5 percent.

### RENT

**2.5% increase in the average effective rent Y-O-Y**

- Driven by a 5.4 percent gain in Morris County, the average effective rent in the market climbed to \$2,014 per month in June.
- Following decreases last year, the average effective rents across Class A, B and C apartments improved year over year in the second quarter. Class A rents have now recovered to the pre-pandemic level.

## Investment Highlights

- Transaction activity continues to trail pre-pandemic levels, but sales velocity in the second quarter was up approximately 80 percent from the same period a year prior. Low interest rates are facilitating competitive bidding for those assets on the market, supporting a 3 percent annual increase in the average sale price to \$183,000 per unit for the 12-month span ended in June.
- Over the past four quarters buyer interest partially shifted from Hudson to Essex County, reflecting the health crisis's influence on urban and suburban residential demand. Within Essex County, the most properties were traded in the general Orange area for cap rates in the low-4 percent to high-5 percent range. Marketwide, the average yield was 5.9 percent as of June, unchanged from the prior year.
- Investors targeting higher yields found options in the region's western submarkets as well as the greater Newark area. Class B and C properties that demonstrated stabilized rent rolls attracted buyers, even if fundamentals had not returned to pre-pandemic levels.